

State of Florida



Public Service Commission

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TALLAHASSEE, FLORIDA 32399-0850

-M-E-M-O-R-A-N-D-U-M-

DATE: September 30, 2025

TO: Devlin Higgins, Chief of Finance, Tax & Cost Recovery, Division of Accounting & Finance

FROM: Division of Accounting and Finance (Lenberg, G. Kelley)
Division of Economics (Bruce, Chambliss, Hudson)
Division of Engineering (Lewis, Smith II)
Office of the General Counsel (Augsburger, Farooqi)

RE: Docket No. 20250075-WU – Application for staff-assisted rate case in Citrus County, by Citrus Waterworks, Inc.

-STAFF REPORT-

This Staff Report is preliminary in nature. The Commission staff's final recommendation will not be filed until after the Customer Meeting scheduled for October 30, 2025.

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Case Background

Citrus Waterworks, Inc. (Citrus or Utility) is a Class C water-only utility providing service to approximately 154 residential customers and one general service customer in Citrus County. In 2025, the Commission approved a grandfather certificate for the Utility to operate as a water utility in Citrus County.¹ The Utility's last rate setting procedure was in 2024 and was approved by the Citrus County Water and Wastewater Authority in Final Order No. 24-02.

On April 30, 2025, Citrus filed an application for a staff-assisted rate case (SARC).² According to the Citrus Waterworks 2024 Annual Report, total gross revenues were \$53,224 and total operating expenses were \$55,845.

This Staff Report is a preliminary analysis of the Utility's books and records. This report is prepared by Commission staff to give customers and the Utility an initial understanding of staff's potential recommendations. The final recommendation is scheduled to be filed on December 23, 2025, and addressed at the January 6, 2026 Commission Conference. The potential recommendations may be revised as necessary. The revisions would be based on any new or updated information and the results of customer quality of service or other relevant comments, if any, received at the customer meeting scheduled for October 30, 2025.

The Commission has jurisdiction pursuant to Sections 367.011, 367.081, 367.0812, 367.0814, 367.091, and 367.121, Florida Statutes (F.S.).

¹Order No. PSC-2025-0041-PAA-WU, issued on February 6, 2025, in Docket No. 20240111-WU, *In re: Application for grandfather certificate to operate water utility in Citrus County, by Citrus Waterworks, Inc.*

²Document No. 03257-2025, filed April 30, 2025.

Discussion of Issues

Issue 1: Is the quality of service provided by Citrus Waterworks, Inc. satisfactory?

Preliminary Recommendation: Staff's recommendation regarding quality of service will not be finalized until after the October 30, 2025 Customer Meeting. (Lewis)

Staff Analysis: Pursuant to Section 367.081(2)(a)(I), F.S., and Rule 25-30.433(1), Florida Administrative Code (F.A.C.), in water rate cases the Commission shall determine the overall quality of service provided by the Utility. This determination is made from an evaluation of the quality of the Utility's product and the Utility's attempt to address customer satisfaction. The Rule further states that the most recent chemical analyses for the water system, outstanding citations, violations, and consent orders on file with the Department of Environmental Protection (DEP) and the county health department, and any DEP and county health department official's testimony concerning quality of service shall be considered. In addition, any customer testimony, comments, or complaints received by the Commission are also reviewed. The operating condition of the water system is addressed in Issue 2.

Quality of the Utility's Product

In evaluation of Citrus' product quality, staff reviewed the Utility's compliance with the DEP's primary and secondary drinking water standards. Primary standards protect public health while secondary standards regulate contaminants that may impact the taste, odor, and color of drinking water. Staff reviewed the DEP's Safe Drinking Water Program chemical analysis of samples taken on April 11, 2024, at Ellsworth Point, and on April 24, 2024, at Backwater Heights, and both plants were deemed in compliance with DEP standards. In addition, staff reviewed the most current Disinfection Byproducts testing conducted on July 1, 2024, at the Ellsworth Point water treatment plant (WTP), and on July 26, 2024, at the Backwater Heights WTP and the results were in compliance with DEP standards.

The Utility's Attempt to Address Customer Satisfaction

Staff reviewed the Commission's Consumer Activity Tracking System records, and discovered that no complaints were recorded during the test year and four years prior for Citrus. There were no complaints filed against the Utility with the DEP during the same timeframe. Citrus reported receiving 38 complaints during this timeframe. Table 1-1 shows the number of complaints, by subject and year, received by the Utility.

Table 1-1
Number of Utility Complaints by Subject

Subject of Complaint	2020	2021	2022	2023	2024	Total
Water Service Interruption	0	1	9	4	6	20
Pressure Issue	0	3	3	10	0	16
Water Quality	0	1	0	0	1	2
Total	0	5	12	14	7	38

Source: Utility responses to staff data requests.

Date: September 30, 2025

Staff investigated the causes for the complaints displayed above. The complaints related to water service interruptions can be attributed to specific instances, such as a tree falling and damaging one of the hydropneumatic tanks, a circuit breaker trip due to a bad wire, and Hurricane Helene. The water pressure complaints resulted from broken service lines, which have since been repaired by the Utility. There were two water quality complaints from customers experiencing cloudy water. One instance occurred on October 19, 2021, after a main break and another on September 30, 2024, after Hurricane Helene. The cloudiness was caused by air in the service lines and was resolved by flushing. A review of the complaints indicates that they have been resolved. For reference, Citrus serves approximately 155 customers.

Conclusion

Staff's recommendation regarding quality of service will not be finalized until after the October 30, 2025 Customer Meeting.

Issue 2: Is the infrastructure and operating conditions of Citrus Waterworks, Inc. in compliance with DEP regulations?

Preliminary Recommendation: Staff's recommendation regarding DEP compliance will not be finalized until after the October 30, 2025 customer meeting. (Lewis)

Staff Analysis: Rule 25-30.225(2), F.A.C., requires each water Utility to maintain and operate its plant and facilities by employing qualified operators in accordance with the rules of the DEP. Rule 25-30.433(2), F.A.C., requires consideration of whether the infrastructure and operating conditions of the plant and facilities are in compliance with Rule 25-30.225, F.A.C. In making this determination, the Commission must consider testimony of the DEP and county health department officials, sanitary surveys for water systems, citations, violations, and consent orders issued to the Utility, customer testimony, comments, and complaints, and Utility testimony and responses to the aforementioned items.

Water System Operating Conditions

Citrus' water consists of two separate systems, Backwater Heights and Ellsworth Point. The Backwater Heights system has two wells that each have a pumping capacity of 60 gallons per minute (gpm). This system is also served by hydropneumatic tanks with capacities of 1,000 and 2,000 gallons. The Ellsworth Point system has one well with a pumping capacity of 60 gpm along with a hydropneumatic tank with a capacity of 1,400 gallons. Groundwater from the wells is treated through hypochlorination.

Staff reviewed Citrus' most recent Sanitary Survey Reports conducted by the DEP to determine the Utility's overall compliance. Staff reviewed the March 7, 2023, report for the Backwater Heights system which indicated three deficiencies. These deficiencies were for not having an Operation and Maintenance Manual onsite, a missing screen on tank number one, and the accuracy of the flow meter had not been checked as required. The corrections were made and the plant was deemed in compliance on March 23, 2023. A review of the Report dated May 11, 2023, for the Ellsworth Point system indicated no deficiencies, and the plant was deemed in compliance on May 18, 2023.

Conclusion

Staff's recommendation regarding DEP compliance will not be finalized until after the October 30, 2025 Customer Meeting.

Issue 3: What are the used and useful percentages (U&U) of Citrus Waterworks, Inc. water treatment plant (WTP) and water distribution system?

Preliminary Recommendation: Citrus Waterworks Inc.'s WTPs and water distribution systems should be considered 100 percent U&U. Staff recommends that there is 23.1 percent excessive unaccounted for water (EUW). However, staff's recommendation is preliminary; therefore, no adjustment for EUW is being recommended at this time. These are preliminary determinations and are subject to change. (Lewis)

Staff Analysis: As stated in Issue 2, Citrus' water system consists of two separate systems, Backwater Heights and Ellsworth Point. The Backwater Heights system consists of two wells, each with a pumping capacity of 60 gpm, and two hydropneumatic tanks with capacities of 1,000 and 2,000 gallons. The Ellsworth Point system has one well with a pumping capacity of 60 gpm and one hydropneumatic tank with a capacity of 1,400 gallons. The Utility's water distribution system is comprised of 3,050 linear feet of 2-inch PVC (polyvinyl chloride) pipe.

Used and Useful Percentages

Rule 25-30.4325, F.A.C., addresses the method by which the U&U percentages of a water system is determined. Rule 25-30.4325(4), F.A.C, states that a water treatment system is considered 100 percent U&U if the service territory the system is designed to serve is built out and there is no apparent potential for expansion of the service territory or the system is served by a single well. Citrus provided data indicating the number of customers served from 2020 to 2024 has ranged from 149 to 157 customers. From staff's review of the customer billing data, the Utility served 155 customers during the test year. Based on the numbers, customer growth appears to be flat. In addition, both the Backwater Heights and Ellsworth Point service territories appear to be built out. Therefore, the U&U percentage for the Utility's Backwater Heights and Ellsworth Point WTPs and distribution systems should be considered 100 percent.

Excessive Unaccounted for Water

Rule 25-30.4325, F.A.C., additionally provides factors to be considered in determining whether adjustments to operating expenses are necessary for EUW. EUW is defined as "unaccounted for water in excess of 10 percent of the amount produced." Unaccounted for water is all water produced that is not sold, metered, or accounted for in the records of the utility.

EUW is calculated by subtracting both the gallons sold to customers and the gallons used for other services, such as flushing, from the total gallons pumped and purchased for the test year, and dividing by the sum of gallons pumped and purchased. The amount in excess of 10 percent, if any, is the EUW percentage.

A review of the Utility's 2024 monthly operating reports on file with the DEP indicates that Citrus produced 11,339,693 gallons of water during the test year. No water was purchased during the test year. An examination of the Utility's billing records indicates 7,267,000 gallons of treated water was sold to its customers. Citrus' 2024 Annual Report on file with the Commission states that the Utility estimated 318,000 gallons were used for line flushing and main breaks. The calculation $([11,339,693 + 0 - 7,267,000 - 318,000] / [11,339,693 + 0])$ results in 33.1 percent

unaccounted for water. The Commission allows a 10 percent margin; therefore, there is 23.1 percent EUW.

Conclusion

Citrus Waterworks, Inc.'s water treatment plants and water distribution systems should be considered 100 percent U&U. Staff recommends that there is 23.1 percent EUW. However, staff's recommendation is preliminary; therefore, no adjustment for EUW is being recommended at this time. These are preliminary determinations and are subject to change.

Issue 4: What is the appropriate average test year's rate base for Citrus Waterworks, Inc.?

Preliminary Recommendation: The appropriate average test year rate base for Citrus Waterworks, Inc. is \$89,973. (Folkman, Lenberg, Lewis)

Staff Analysis: The appropriate components of the Utility's rate base include utility plant in service (UPIS), land and land rights, accumulated depreciation, contributions-in-aid of construction (CIAC), accumulated amortization of CIAC, and working capital. Staff selected the test year ended December 31, 2024, for the instant rate case. Commission audit staff determined that the Utility's books and records are in compliance with the National Association of Regulatory Utility Commissioners' Uniform System of Accounts (NARUC USOA). A summary of each component and the recommended adjustments are discussed below.

Utility Plant in Service

The Utility recorded UPIS of \$151,811. Audit staff reduced this amount by \$15,744 to reflect UPIS reductions approved by the Citrus County Water and Wastewater Authority in Final Order No. 24-02 that were not reflected in the Utility's general ledger. Additionally, Audit staff made a reduction of \$216 to remove two additions that were unsupported by the Utility. Staff increased this amount by \$6,917 to reflect an averaging adjustment. Staff's adjustments to UPIS result in a decrease of \$9,046. Therefore, staff recommends a UPIS of \$142,766.

Land and Land Rights

The Utility recorded a test year land and land rights balance of \$2,975. Staff did not make any adjustments to this account, and therefore recommends a land and land rights balance of \$2,975.

Used and Useful

As discussed in Issue 3, the Utility's system is considered 100 percent U&U. Therefore, no U&U adjustment is necessary.

Accumulated Depreciation

The Utility recorded accumulated depreciation of \$57,783. Audit staff reduced this amount by \$3,659 to reflect the respective balance approved by the Citrus County Water and Wastewater Authority in Final Order No. 24-02, and recalculated the balance using depreciation rates established by Rule 25-30.140, F.A.C. Additionally, staff reduced this amount by \$452 to reflect an averaging adjustment. Staff's adjustments to accumulated depreciation results in a decrease of \$4,111. Therefore, staff recommends an average accumulated depreciation balance of \$53,672.

Contributions In Aid of Construction

The Utility recorded CIAC of \$24,313. Staff increased this figure by \$433 to reflect an averaging adjustment, and therefore recommends an average CIAC balance of \$24,746.

Accumulated Amortization of CIAC

The Utility recorded accumulated amortization of CIAC of \$17,341. Audit staff recalculated this amount using a composite resulting in an increase of \$41. Per Rule 25-30,140(9)(b), F.A.C., the specific depreciation rates of the related plant accounts should be used, and reserving the use of a composite rate when the specific associated plant accounts are unknown. Additionally, staff reduced this account by \$416 to reflect an averaging adjustment. Staff's adjustments to

accumulated CIAC result in a decrease of \$375. Therefore, staff recommends an average accumulated amortization of CIAC balance of \$16,966.

Working Capital Allowance

Working capital is defined as the short-term investor-supplied funds that are necessary to meet operating expenses. Consistent with Rule 25-30.433(2), F.A.C., and Commission practice, staff used the one-eighth of operation and maintenance (O&M) expense (less rate case expense) formula for calculating the working capital allowance.³ As such, staff removed the rate case expense of \$675. This resulted in an adjusted O&M expense balance of \$45,470. Applying this formula, staff recommends a working capital allowance of \$5,684.

Rate Base Summary

Based on the foregoing, staff recommends that the appropriate average test year rate base is \$89,973. Rate base is shown on Schedule No. 1-A. The related adjustments are shown on Schedule No. 1-B.

³See Order No. PSC-2025-0284-PAA-SU, issued July 22, 2025, in Docket No. 20240105-SU, *In re: Application for staff-assisted rate case in Polk County, by West Lakeland Wastewater, LLC*; Order No. PSC-2025-0285-PAA-WU, issued July 22, 2025, in Docket No. 20240119-WU, *In re: Application for staff-assisted rate case in Polk County, by Alturas Water, LLC*.

Issue 5: What is the appropriate return on equity and overall rate of return for Citrus Waterworks, Inc.?

Preliminary Recommendation: The appropriate return on equity (ROE) is 8.51 percent with a range of 7.51 percent to 9.51 percent. The appropriate overall rate of return is 8.41 percent. (Folkman, Lenberg)

Staff Analysis: The Utility's capital structure consists of common equity and customer deposits. The Utility's capital structure has been reconciled with staff's recommended rate base. The appropriate ROE is 8.51 percent based on the Commission-approved leverage formula currently in effect.⁴ Staff recommends an ROE of 8.51 percent with a range of 7.51 percent to 9.51 percent, and an overall rate of return of 8.41 percent. The ROE and overall rate of return are shown on Schedule No. 2.

⁴Order No. PSC-2025-0213-PAA-WS, issued on June 18, 2025, in Docket No. 20250006-WS; *In re: Water and wastewater industry annual reestablishment cf authorized range cf return on common equity for water and wastewater utilities pursuant to Section 367.081(4)(f), F.S.*

Issue 6: What are the appropriate test year operating revenues for the water system of Citrus Waterworks, Inc.'s water system?

Preliminary Recommendation: The appropriate test year operating revenues are \$56,613 for Citrus Waterworks, Inc.'s water system. (Chambliss)

Staff Analysis: The Utility recorded total test year operating revenues of \$53,224 for water. The water revenues included \$50,824 of service revenues and \$2,399 of miscellaneous revenues. During the test year, the Utility had rate changes in April and July. However, in the months wherein there was a rate change due to prorating bills, the Utility's billing data indicated two bills per customer. Therefore, staff adjusted the billing data to correct the number of bills during the months of a rate change. In addition, staff annualized service revenues using the adjusted billing data and the rate change in July. As a result, staff determined services revenues to be \$54,250, which is an increase of \$3,426 ($\$54,250 - \$50,824$).

Staff made an adjustment to miscellaneous revenues. During the test year, the Utility recorded \$2,399 for its miscellaneous revenues. The Utility's tariff charge for a violation reconnection is \$21. However, the Utility billed four customers a violation reconnection charge in the amount of \$30 each. Therefore, staff made an adjustment to reduce miscellaneous revenues by \$36 [$(\$30 - \$21) \times 4$]. As a result, miscellaneous revenues should be \$2,363 ($\$2,399 - \36).

Based on the above, the appropriate test year operating revenues for Citrus' water system are \$56,613 ($\$54,250 + \$2,363$) for the water system.

Issue 7: What is the appropriate amount of operating expense for Citrus Waterworks, Inc.?

Preliminary Recommendation: The appropriate amount of operating expense for Citrus is \$53,747. (Folkman, Lenberg)

Staff Analysis: The Utility recorded operating expense of \$55,817. The test year O&M expenses have been reviewed by staff, including invoices and other supporting documentation. Staff has made several adjustments to the Utility's operating expense as described below.

Operation and Maintenance Expenses

Purchased Power (615)

The Utility recorded purchased power expense of \$6,396. Audit staff decreased this figure by \$33 to reflect the removal of an out-of-test-year expense. Therefore, staff recommends a purchased power expense of \$6,363.

Insurance Expense (655)

The Utility recorded insurance expense of \$1,677. Staff decreased this figure by \$12 to reflect an auditing adjustment based on the currently effective insurance policy. Therefore, staff recommends a general liability insurance expense of \$1,665.

Regulatory Commission Expense (665)

The Utility recorded an annual rate case expense of \$125. Audit staff increased this amount by \$40 to reflect the annual rate case expense of \$165 approved by the Citrus County Water and Wastewater Authority in Final Order No. 24-02.

The Utility is required by Rule 25-22.0407, F.A.C., to mail notices of the rate case overview, interim rates, final rates, and four-year rate reduction. Staff calculated noticing costs to be \$537. Staff calculated a distance of 215 miles from the Utility to Tallahassee. Based on the 2025 Internal Revenue Service (IRS) business mileage rate of \$0.70, staff calculated round trip travel and lodging expense to the Commission Conference of \$501.⁵ Additionally, the Utility paid a filing fee of \$1,000.

Staff recommends a total rate case expense, consisting of noticing costs, travel, and lodging expenses, consulting fees, and filing fee of \$2,038, which amortized over four years is \$510. Therefore, staff recommends an increase of \$550 and a total annual rate case expense of \$675.

Bad Debt Expense (670)

Citrus recorded a bad debt expense of \$2,040 for the test year. Staff notes that it is Commission practice to calculate bad debt expense using a three-year average when the information is available.⁶ In response to staff's second data request, the Utility provided the bad debt amounts of (\$292), \$757, and \$2,040 for 2022, 2023, and 2024, respectively.⁷ Based on this information,

⁵<https://www.irs.gov/tax-professionals/standard-mileage-rates>

⁶See e.g., Order No. PSC-2025-0285-PAA-WU, issued July 22, 2025, in Docket No. 20240119-WU, *In re: Application for staff-assisted rate case in Polk County, by Alturas Water, LLC*.

⁷Document No. 08585-2025, filed on September 2, 2025.

Date: September 30, 2025

Staff calculated a three-year average bad debt expense \$521, which represents a decrease of \$1,205. Therefore, staff recommends a bad debt expense of \$835.

Miscellaneous Expense (675)

The Utility recorded miscellaneous expense of \$2,921. During the test year, the Utility incurred certain non-recurring expenses. Pursuant to Rule 25-30.433(9), F.A.C., staff amortized these expenses over a five-year period. Specifically, the Utility incurred \$1,430 for tree trimming and \$741 in fees associated with compliance actions related to DEP's Lead Service Line Inventory (LSLI) requirements. Staff amortized these costs over a five-year period resulting in a total annual expense of \$434. This amount represents a reduction of \$1,737. Therefore, staff recommends a miscellaneous expense of \$1,184.

Operation and Maintenance Expense Summary

The Utility recorded test year O&M expense of \$48,581. Based on the above adjustments, staff recommends O&M expense be decreased by \$2,437. This results in a total O&M expense of \$46,144. Staff's recommended adjustments to O&M are shown on Schedule No. 3-C.

Depreciation Expense

The Utility recorded depreciation expense of \$5,142. Based on the depreciation rates prescribed in Rule 25-30.140, F.A.C., audit staff decreased this amount by \$487. Therefore, staff recommends depreciation expense of \$4,655.

Amortization of CIAC

The Utility recorded amortization of CIAC expense of \$831. Staff increased this figure by \$1 to reflect an auditing adjustment, and therefore recommends an amortization of CIAC of \$832.

Taxes Other Than Income (TOTI)

The Utility recorded TOTI of \$2,925. Audit staff increased tangible tax by \$525 to reflect 2024 Real and Tangible Personal Property tax assessments from Citrus County. Further, audit staff reduced property tax by \$34 to reflect the maximum early-payment discount of four percent.

Based on revenues discussed in Issue 6, TOTI should be increased by \$153 to reflect a regulatory assessment fee (RAF) rate of 4.5 percent applied to the adjustment in revenues.

As discussed in Issue 9, staff recommends revenues be increased by \$4,698 to reflect the increased revenue required to cover expenses and allow an opportunity to earn the recommended rate of return. As a result, TOTI should be increased by \$211 to reflect a RAF rate of 4.5 percent of the change in revenues. Staff's adjustments result in a total increase of \$855. Therefore, staff recommends a TOTI of \$3,780.

Operating Expense Summary

The Utility recorded operating expenses of \$55,817. The application of staff's recommended adjustments to the Utility's recommended operating expense results in a total operating expense of \$53,747, a decrease of \$2,070. Operating expenses are shown on Schedule No. 3-A, and the related adjustments are shown on Schedule No. 3-B.

Issue 8: Does Citrus Waterworks, Inc. meet the criteria for application of the operating ratio methodology?

Preliminary Recommendation: No, Citrus does not meet the requirement for application of the operating ratio methodology for calculating the revenue requirement. (Folkman, Lenberg)

Staff Analysis: Rule 25-30.4575(2), F.A.C., indicates that in rate cases processed under Rule 25-30.455, F.A.C., the Commission will use the operating ratio methodology to establish the Utility's revenue requirement when its rate base is not greater than 125 percent of O&M expenses, less regulatory commission expense, and the use of the operating ratio methodology does not change the Utility's qualification for a SARC.

With respect to Citrus, staff has recommended a rate base of \$89,973. After removal of rate case expense, staff has calculated an adjusted O&M expense of \$45,470. Based on staff's preliminary recommended amounts, the Utility's rate base is 197.87 percent of its adjusted O&M expense. Based on this, the Utility does not qualify for application of the operating ratio methodology.

Issue 9: What is the appropriate revenue requirement for Citrus Waterworks, Inc.?

Preliminary Recommendation: The appropriate revenue requirement is \$61,311, resulting in an annual increase of \$4,698 (8.30 percent). (Folkman, Lenberg)

Staff Analysis: Citrus should be allowed an annual increase of \$4,698 (8.30 percent). This should allow the Utility the opportunity to recover expenses and earn an 8.41 percent return on rate base. The calculations for revenue requirement are shown on Table 9-1.⁸

Table 9-1
Revenue Requirement

Water Rate Base	\$89,973
Rate of Return	× <u>8.41%</u>
Return on Rate Base	<u>\$7,563</u>
Water O&M Expense	46,144
Depreciation Expense	4,655
Amortization of CIAC	(832)
Taxes Other Than Income	<u>3,780</u>
Revenue Requirement	<u>\$61,311</u>
Less Test Year Revenues	\$56,613
Annual Increase	\$4,698
Percent Increase	8.30%

Source: Staff calculations.

⁸Staff notes calculations may not sum due to rounding.

Issue 10: What are the appropriate rate structure and rates for Citrus Waterworks, Inc.?

Preliminary Recommendation: The recommended rate structure and monthly water rates are shown on Schedule No. 4. The Utility should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates should be effective for service rendered on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475(1), F.A.C. In addition, the approved rates should not be implemented until staff has approved the proposed customer notice and the notice has been received by the customers. The Utility should provide proof of the date notice was given within 10 days of the date of the notice. (Chambliss)

Staff Analysis: Citrus Waterworks is located in Citrus County within the Southwest Florida Water Management District. The Utility provides water service to 154 residential customers and one general service customer. A review of the billing data indicates approximately 22 percent of the residential customer bills during the test year had zero gallons. However, the billing data at the 1,000 gallon level reflects 38 percent of the residential customer bills, which indicates a moderate seasonal customer base. The average residential water demand was 3,883 gallons per month during the test period. The average water demand, excluding zero gallons bills was 5,005 gallons per month. The utility's current rate structure for both residential and general service customers consists of a monthly base facility charge (BFC) and uniform gallonage charge.

Staff performed an analysis of the utility's billing in order to evaluate the appropriate rate structure for the residential water customers. The goal of the evaluation was to select the rate design parameters that: (1) produce the recommended revenue requirement; (2) equitably distribute cost recovery among the utility's customers; (3) establish the appropriate discretionary usage threshold for restricting repression; and (4) implement, where appropriate, water conserving rate structures consistent with Commission practice.

As mentioned above, the Utility's customer base is moderately seasonal. Currently 58 percent of the revenues are recovered through the BFC. Due to the seasonal customer base, staff recommends that 60 percent of the revenue requirement be recovered through the BFC in an effort to maintain sufficient revenue stability. Although the billing analysis indicates a seasonal customer base, there is also some discretionary usage at higher levels of consumption. The average number of people per household is 2.5. Based on the number of people per household, 50 gallons per day, per person, and the number of days per month, the discretionary usage threshold should be 4,000 gallons per month. Staff's review of the billing data indicates that discretionary usage above 4,000 gallons represents approximately 33 percent of the bills, which accounts for approximately 47 percent of water demand. This indicates that there is some high discretionary usage above 4,000 gallons.

As mentioned in Issue 9, staff's recommended revenue requirement increase is 8.30 percent. Typically, when the revenue requirement is less than 20 percent, staff does an across-the board increase to the existing rates. However, in this case, staff is recommending redesigning the rates because Citrus' meter equivalents are incorrect. The meter equivalents for Citrus' rates are not based on the American Water Works Association (AWWA) meter equivalents, which are used by the Commission when designing rates.

The meter equivalents assign the demand on a system as well as cost recovery by meter size in terms of equivalent residential connections (ERCs). In comparison to the AWWA meter equivalents, Citrus' meter equivalents for larger meter sizes are significantly lower than the AWWA. Redesigning rates based on the AWWA meter equivalents distributes the cost recovery to the appropriate meter size. The table below shows a comparison of the AWWA meter equivalents to Citrus' existing meter equivalents.

Table 10-1
Comparison of ERCs

Meter Sizes	AWWA	Citrus
5/8" x 3/4"	1	1
3/4"	1.5	1.5
1"	5	2.5
2"	8	5
3"	15	8

Source: Rule 25-30.055, F.A.C., and Citrus' tariff rates

Staff recommends a two-tier inclining block rate structure, which includes separate gallonage charges for non-discretionary and discretionary usage for residential water rates. The rate blocks are: (1) 0 - 4,000 gallons; and (2) all usage in excess of 4,000 gallons per month. Staff's recommended rate structure will target those customers with higher levels of consumption. General service customers should continue to be billed a BFC and uniform gallonage charge.

Based on staff's recommended revenue increase of 8.6 percent, which excludes miscellaneous revenues, the residential consumption can be expected to decline by 210,000 gallons resulting in an anticipated average residential demand of 3,770 gallons per month. Staff recommends a 2.9 percent reduction in test year residential gallons for ratesetting purposes. As a result, the corresponding reductions for purchased power expense is \$184, \$3 for chemicals expense, and \$9 for RAFs to reflect the anticipated repression, which results in a post repression revenue requirement of \$58,752.

The recommended rate structure and monthly water rates are shown on Schedule No. 4. The Utility should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates should be effective for service rendered on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475(1), F.A.C. In addition, the approved rates should not be implemented until staff has approved the proposed customer notice and the notice has been received by the customers. The Utility should provide proof of the date notice was given within 10 days of the date of the notice.

Issue 11: What are the appropriate initial customer deposits for Citrus Waterworks, Inc.?

Preliminary Recommendation: The appropriate initial customer deposit should be \$61 for the residential 5/8 inch x 3/4 inch meter size. The initial customer deposit for all other residential meter sizes and all general service meter sizes should be two times the average estimated bill for water. The approved initial customer deposits should be effective for connections made on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475, F.A.C. The Utility should be required to collect the approved deposits until authorized to change them by the Commission in a subsequent proceeding. (Chambliss)

Staff Analysis: Rule 25-30.311, F.A.C., provides the criteria for collecting, administering, and refunding customer deposits. Customer deposits are designed to minimize the exposure of bad debt expense for the Utility and, ultimately, the general body of ratepayers. An initial customer deposit ensures that the cost of providing service is recovered from the cost causer. Historically, the Commission has set initial customer deposits equal to two times the average estimated bill.⁹ Currently, the Utility has an initial customer deposit of \$45 for the residential 5/8 inch x 3/4 inch meter size. However, this amount does not cover two months' average bills based on staff's recommended rates. The Utility's anticipated post-repression average monthly residential usage is 3,770 gallons per customer. Therefore, the average residential monthly bill is approximately \$30.70 for water service based on staff's recommended rates.

Staff recommends that the appropriate initial customer deposit should be \$61 for the residential 5/8 inch x 3/4 inch meter size. The initial customer deposit for all other residential meter sizes and all general service meter sizes should be two times the average estimated bill for water. The approved initial customer deposits should be effective for connections made on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475, F.A.C. The Utility should be required to collect the approved deposits until authorized to change them by the Commission in a subsequent proceeding.

⁹See Order No. PSC-15-0142-PAA-SU, issued March 26, 2015, in Docket No. 130178-SU, *In re: Application for staff assisted rate case in Polk County by Crooked Lake Park Sewerage Company*.

Issue 12: What is the appropriate amount by which rates should be reduced four years after the published effective date to reflect the removal of the amortized rate case expense?

Preliminary Recommendation: The rates should be reduced as shown on Schedule No. 4, to remove rate case expense grossed-up for RAFs and amortized over a four-year period. Pursuant to Section 367.081(8), F.S., the decrease in rates should become effective immediately following the expiration of the rate case expense recovery period. Citrus should be required to file revised tariffs and a proposed customer notice setting forth the lower rates and rationale no later than one month prior to the effective date of the new rates. If the Utility files revised tariffs reflecting this reduction in conjunction with a price index or pass-through rate adjustment, separate data should be filed for the price index and/or pass-through increase and the reduction in the rates due to the amortized rate case expense. (Folkman, Lenberg, Chambliss)

Staff Analysis: Section 367.081, F.S., requires that the rates be reduced immediately following the expiration of the four-year period by the amount of the rate case expense previously included in rates. The reduction will reflect the removal of revenue associated with the amortization of rate case expense and the gross-up for RAFs. This results in a reduction of \$534.

Staff recommends that the rates should be reduced as shown on Schedule No. 4, to remove rate case expense grossed-up for RAFs and amortized over a four-year period. Pursuant to Section 367.081(8), F.S., the decrease in rates should become effective immediately following the expiration of the rate case expense recovery period. Citrus should be required to file revised tariffs and a proposed customer notice setting forth the lower rates and rationale no later than one month prior to the effective date of the new rates. If the Utility files revised tariffs reflecting this reduction in conjunction with a price index, or pass-through rate adjustment, separate data should be filed for the price index and/or pass-through increase and the reduction in the rates due to the amortized rate case expense.

Issue 13: Should the recommended rates be approved for Citrus Waterworks, Inc. on a temporary basis, subject to refund with interest, in the event of a protest filed by a party other than the Utility?

Preliminary Recommendation: Yes. Pursuant to Section 367.0814(7), F.S., the recommended rates should be approved for the Utility on a temporary basis, subject to refund with interest, in the event of a protest filed by a party other than the Utility. Citrus should file revised tariff sheets and a proposed customer notice reflecting the Commission-approved rates. The approved rates should be effective for services rendered on or after the stamped approval date on the tariff sheet, pursuant to Rule 25-30.475(1), F.A.C. In addition, the temporary rates should not be implemented until staff has approved the proposed notice, and the notice has been received by the customers. Further, prior to implementing any temporary rates, the Utility should provide appropriate financial security.

If the recommended rates are approved on a temporary basis, the rates collected by the Utility should be subject to the refund provisions discussed below in the staff analysis. In addition, after the increased rates are in effect, pursuant to Rule 25-30.360(6), F.A.C., the Utility should file reports with the Commission's Office of Commission Clerk no later than the 20th of each month indicating both the current monthly and total amount subject to refund at the end of the preceding month. The report filed should also indicate the status of the security being used to guarantee repayment of any potential refund. (Folkman, Lenberg)

Staff Analysis: This recommendation proposes an increase in rates. A timely protest might delay a rate increase resulting in an unrecoverable loss of revenue to the Utility. Therefore, pursuant to Section 367.0814(7), F.S., in the event of a protest filed by a party other than the Utility, staff recommends that the proposed rates be approved on a temporary basis. Citrus should file revised tariff sheets and a proposed customer notice reflecting the Commission-approved rates. The approved rates should be effective for service rendered on or after the stamped approval date on the tariff sheet, pursuant to Rule 25-30.475(1), F.A.C. In addition, the temporary rates should not be implemented until staff has approved the proposed notice, and it has been received by the customers. The additional revenue produced by staff's recommended rates and collected by the Utility should be subject to the refund provisions discussed below.

Citrus should be authorized to initiate the temporary rates upon staff's approval of an appropriate security for the potential refund and cost of the proposed customer notice. Security should be in the form of either a bond or letter of credit in the amount of \$3,220. Alternatively, the Utility may establish an escrow agreement with an independent financial institution.

If the Utility chooses a bond for securing the potential refund, the bond should contain wording to the effect that it will be terminated only under the following conditions:

1. The Commission approves the rate increase; or,
2. If the Commission denies the increase, the Utility shall refund the amount collected that is attributable to the increase.

If the Utility chooses a letter of credit for securing the potential refund, the letter of credit should contain the following conditions:

1. The letter of credit is irrevocable for the period it is in effect.
2. The letter of credit will be in effect until a final Commission order is rendered, either approving or denying the rate increase.

If security is provided through an escrow agreement, the following conditions should be part of the agreement:

1. The Commission Clerk, or his or her designee, must be a signatory to the escrow agreement.
2. No monies in the escrow account may be withdrawn by the Utility without the prior written authorization of the Commission Clerk, or his or her designee.
3. The escrow account shall be an interest bearing account.
4. If a refund to the customers is required, all interest earned by the escrow account shall be distributed to the customers.
5. If a refund to the customers is not required, the interest earned by the escrow account shall revert to the Utility.
6. All information on the escrow account shall be available from the holder of the escrow account to a Commission representative at all times.
7. The amount of revenue subject to refund shall be deposited in the escrow account within seven days of receipt.
8. This escrow account is established by the direction of the Florida Public Service Commission for the purpose(s) set forth in its order requiring such account. Pursuant to *Cosentino v. Elson*, 263 So. 2d 253 (Fla. 3d DCA 1972), escrow accounts are not subject to garnishments.
9. The account must specify by whom and on whose behalf such monies were paid.

In no instance should the maintenance and administrative costs associated with the refund be borne by the customers. These costs are the responsibility of, and should be borne by, the Utility. Irrespective of the form of security chosen by the Utility, an account of all monies received as a result of the rate increase should be maintained by the Utility. If a refund is ultimately required, it should be paid with interest calculated pursuant to Rule 25-30.360(4), F.A.C.

The Utility should maintain a record of the amount of the bond, and the amount of revenues that are subject to refund. In addition, after the increased rates are in effect, pursuant to Rule 25-30.360(6), F.A.C., the Utility should file reports with the Commission Clerk's office no later than the 20th of every month indicating the monthly and total amount of money subject to refund

at the end of the preceding month. The report filed should also indicate the status of the security being used to guarantee repayment of any potential refund.

CITRUS WATERWORKS, INC. TEST YEAR ENDED 12/31/2024 SCHEDULE OF WATER RATE BASE		SCHEDULE NO. 1-A DOCKET NO. 20250075-WU	
DESCRIPTION	BALANCE PER UTILITY	STAFF ADJ.	BALANCE PER STAFF
1. UTILITY PLANT IN SERVICE	\$151,811	(\$9,046)	\$142,766
2. LAND & LAND RIGHTS	2,975	0	2,975
3. ACCUMULATED DEPRECIATION	(57,783)	4,111	(53,672)
4. CIAC	(24,313)	(433)	(24,746)
5. ACCUM. AMORT. CIAC	17,341	(375)	16,966
6. WORKING CAPITAL ALLOWANCE	<u>0</u>	<u>5,684</u>	<u>5,684</u>
WATER RATE BASE	<u>\$90,031</u>	<u>(\$58)</u>	<u>\$89,973</u>

CITRUS WATERWORKS, INC. TEST YEAR ENDED 12/31/2024 ADJUSTMENTS TO RATE BASE		SCHEDULE NO. 1-B DOCKET NO. 20250075-WU
		WATER
UTILITY PLANT IN SERVICE		
1.	To reflect audit adjustments.	(\$15,744)
2.		(216)
3.	To reflect an averaging adjustment.	<u>6,917</u>
	Total	<u>(\$9,046)</u>
ACCUMULATED DEPRECIATION		
1.	To reflect audit adjustments.	\$3,659
2.	To reflect an averaging adjustment.	<u>452</u>
	Total	<u>\$4,111</u>
CIAC		
1.	To reflect an averaging adjustment.	<u>(\$433)</u>
ACCUM. AMORT. CIAC		
1.	To reflect an auditing adjustment.	\$41
2.	To reflect an averaging adjustment.	<u>(416)</u>
	Total	<u>(\$375)</u>
WORKING CAPITAL ALLOWANCE		
	To reflect 1/8 of adjusted test year O&M expenses.	<u>\$5,684</u>

CITRUS WATERWORKS, INC. TEST YEAR ENDED 12/31/2024 SCHEDULE OF CAPITAL STRUCTURE				SCHEDULE NO. 2 DOCKET NO. 20250075-WU		
CAPITAL COMPONENT	PER UTILITY	PRO RATA ADJ.	BALANCE PER STAFF	PERCENT OF TOTAL	COST	WEIGHTED COST
1. COMMON EQUITY	\$128,704	(\$40,125)	\$88,579	98.45%	8.51%	8.38%
2. CUSTOMER DEPOSITS	<u>2,025</u>	<u>(631)</u>	<u>1,394</u>	<u>1.55%</u>	2.00%	<u>0.03%</u>
TOTAL CAPITAL	<u>\$130,729</u>	<u>(\$40,756)</u>	<u>\$89,973</u>	<u>100.00%</u>		<u>8.41%</u>
RANGE OF REASONABLENESS					LOW	HIGH
RETURN ON EQUITY					7.51%	9.51%
OVERALL RATE OF RETURN					7.42%	9.39%

CITRUS WATERWORKS, INC. TEST YEAR ENDED 12/31/2024 SCHEDULE OF WATER OPERATING INCOME			SCHEDULE NO. 3-A DOCKET NO. 20250075-WU		
	TEST YEAR PER UTILITY	STAFF ADJUST- MENTS	STAFF ADJUSTED TEST YEAR	ADJ. FOR INCREASE	REVENUE REQUIREMENT
1. TOTAL OPERATING REVENUES	\$53,223	\$3,390	\$56,613	\$4,698 8.30%	\$61,311
OPERATING EXPENSES:					
2. OPERATION & MAINTENANCE	\$48,581	(\$2,437)	\$46,144	\$0	\$46,144
3. DEPRECIATION	5,142	(487)	4,655	0	4,655
4. AMORTIZATION OF CIAC	(831)	(1)	(832)	0	(832)
5. TAXES OTHER THAN INCOME	2,925	644	3,569	211	3,780
6. INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
TOTAL OPERATING EXPENSES	<u>\$55,817</u>	<u>(\$2,281)</u>	<u>\$53,536</u>	<u>\$211</u>	<u>\$53,747</u>
7. OPERATING INCOME/(LOSS)	(\$2,594)		\$3,077		\$7,563
8. WATER RATE BASE	\$90,031		(\$58)		\$89,973
9. RATE OF RETURN					8.41%

CITRUS WATERWORKS, INC. TEST YEAR ENDED 12/31/2024 ADJUSTMENTS TO OPERATING INCOME		SCHEDULE NO. 3-B DOCKET NO. 20250075-WU
		WATER
OPERATING REVENUES		
1.	To reflect appropriate test year Service Revenues.	\$3,426
2.	To reflect an auditing adjustment to Miscellaneous Revenues.	<u>(36)</u>
	Total	<u>\$3,390</u>
OPERATION AND MAINTENANCE EXPENSE		
1.	Purchased Power (615) To reflect an auditing adjustment.	<u>(\$33)</u>
2.	Insurance Expense (655) To reflect an auditing adjustment.	<u>(\$12)</u>
3.	Rate Case Expense (665) To reflect an auditing adjustment. To reflect 1/4 rate case expense.	\$40 <u>510</u>
	Subtotal	<u>\$550</u>
4.	Bad Debt Expense (670) To reflect a three-years average of Bad Debt expense.	<u>(\$1,205)</u>
5.	Miscellaneous Expense (675) To reflect amortized non-recurring tree trimming and LSLI expenses.	<u>(\$1,737)</u>
	TOTAL OPERATION AND MAINTENANCE ADJ.	<u>(\$2,437)</u>
DEPRECIATION EXPENSE		
1.	To reflect audit adjustments.	<u>(\$487)</u>
AMORTIZATION EXPENSE		
1.	To reflect an auditing adjustment.	<u>(\$1)</u>
TAXES OTHER THAN INCOME		
1.	To reflect auditing adjustments to tangible and property taxes.	\$491
2.	To reflect appropriate test year RAF's.	153
3.	To reflect appropriate RAF's on revenue requirement increase.	<u>211</u>
	Total	<u>\$855</u>
	TOTAL OPERATING EXPENSE ADJUSTMENTS	<u>(\$2,070)</u>

CITRUS WATERWORKS, INC. TEST YEAR ENDED 12/31/2024 ANALYSIS OF WATER O&M EXPENSES		SCHEDULE NO. 3-C DOCKET NO. 20250075-WU		
ACCT.#	DESCRIPTION	TOTAL PER UTILITY	STAFF ADJUST- MENT	TOTAL PER STAFF
601	Salaries and Wages – Employees	\$2,500	\$0	\$2,500
615	Purchased Power	6,396	(33)	6,363
618	Chemicals	118	0	118
632	Contractual Services – Accounting	525	0	525
633	Contractual Services – Legal	300	0	300
635	Contractual Services – Testing	445	0	445
636	Contractual Services – Other	31,534	0	31,534
655	Insurance Expense	1,677	(12)	1,665
665	Regulatory Commission Expense	125	550	675
670	Bad Debt Expense	2,040	(1,205)	835
675	Miscellaneous Expenses	<u>2,921</u>	<u>(1,737)</u>	<u>1,184</u>
	Total O&M Expense	<u>\$48,581</u>	<u>(\$2,437)</u>	<u>\$46,144</u>
	Working Capital is 1/8 of O&M less RCE			\$5,684

CITRUS WATERWORKS, INC. TEST YEAR ENDED DECEMBER 31, 2024 MONTHLY WATER RATES		SCHEDULE NO. 4 DOCKET NO. 20250075-WS	
	UTILITY CURRENT RATES	STAFF RECOMMENDED RATES	4-YEAR RATE REDUCTION
<u>Residential and General Service</u>			
Base Facility Charge by Meter Size			
5/8"X3/4"	\$16.80	\$18.71	\$0.17
3/4"	\$25.12	\$28.07	\$0.26
1"	\$41.94	\$46.78	\$0.43
2"	\$83.83	\$149.68	\$1.36
3"	\$134.14	\$299.36	\$2.72
Charge per 1,000 gallons	\$3.11	N/A	N/A
Charge per 1,000 gallons - Residential			
0 - 4,000 gallons	N/A	\$3.24	\$0.03
Over 4,000 gallons	N/A	\$3.43	\$0.03
<u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u>			
1,000 Gallons	\$19.91	\$21.95	
3,000 Gallons	\$26.13	\$28.43	
5,000 Gallons	\$32.35	\$35.10	